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ABSTRACT

This Legislative Analyst's Office (LAO) report was designed to assist the California legislature in developing a long-term state strategy--or master plan--for improving the state's K-12 education system. A K-12 master plan would serve two purposes. In developing the plan, the legislature would create a forum to review the state's existing policies. Once developed, the plan would then function as a reference point, guiding future decisions of the legislature and the executive branch. The document examines the need for a master plan and outlines the lessons learned from research. It offers a brief history of school governance, detailing the impact of the state's Constitution, state involvement since 1965, and current education statutes. The text explores constitutional issues in K-12 governance, such as the roles of the state superintendent and the state board. Various issues, such as the critical impact of the school site, are examined, followed by the LAO guidelines on governance and finance. The report closes with an analysis of the state role under a local-control policy, local roles under a local-control policy, and strategies for implementing the master plan. Suggested changes include the strengthening of school boards, increasing local flexibility, and giving districts control over school finance. (Contains 34 references.) (RJM)

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ED 438 590

Legislative Analyst's Office

K-12 Master Plan

Starting the Process

Contents

Executive Summary

A K-12 Master Plan--Executive Summary

- Why Do We Need a Master Plan?
- Lessons From Research
- A State Strategy That Appears To Work
- The LAO Master Plan--State Roles
- The LAO Master Plan--Local Roles
- Implementing The Master Plan

Introduction

- A Focus on Statutory Changes

Chapter 1--A Brief History of School Governance

- The Constitution
- State Involvement as of 1965
- *Serrano v. Priest*
- Collective Bargaining
- Proposition 13
- Proposition 98
- Education Statutes as of Today

Chapter 2--Constitutional Issues in K-12 Governance

- Governance Principles--Separation and Balance
- The Role of the State Superintendent And the State Board

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- Separation of Finance and Policy Control
- Recognition of Local Control
- Conclusion

Chapter 3--Lessons From Education Research

- Education Is What Occurs in the Classroom
- The Critical Role of the School Site
- The District Role in School Improvement
- The State Role
- Conclusion

Chapter 4--LAO Guidelines on Governance and Finance

- Which Level of Government Should Exercise Financial and Program Control?
- Conclusion

Chapter 5--The State Role Under A Local Control Policy

- Strengthen School Boards
- Limit Public Schools' Monopoly Power
- Create a Simple, Adequate Funding System
- Increase Local Flexibility
- Address Intergovernmental Cost Shifts
- Fill Information Gaps
- Conclusion

Chapter 6--Local Roles Under a Local Control Policy

- Local Roles in K-12 Decision Making
- State Should Interact With Districts
- Conclusion

Chapter 7--Implementing The Master Plan

- Give Districts Greater Control Over School Finance
- Deregulate the Education Code--Employees
- Refine State-Level Governance
- Conclusion

Bibliography

A K-12 Master Plan--Executive Summary

This report is designed to assist the Legislature in developing a long-term state strategy--or a master plan--for improving the K-12 education system. A K-12 master plan would serve two purposes. In developing the

plan, the Legislature would create a forum to review the state's existing policies. Once developed, the plan would function as a reference point, guiding future decisions of the Legislature and the executive branch.

Why Do We Need a Master Plan?

The state's role in K-12 education has expanded significantly over the past 25 years. Incremental changes in the system that occurred through court rulings, voter initiatives, and state actions have seriously eroded the state's previous long-term policy of local control. Some of these changes improved the state's education system. Currently, however, it has become difficult to distinguish which programs and policies constitute a legitimate state function from those activities that should be locally controlled.

For this reason, the elements of our suggested master plan revolve around identifying the appropriate responsibilities of the state and local schools and districts. Approaching planning from this perspective allows the state to take advantage of the strengths of state and local governance.

Lessons From Research

Education research provides important information about the relative strengths and the appropriate roles of the different levels of governance. Specifically:

- ***School Sites Have the Most Information and Ability to Meet the Needs of Students.*** To maximize the impact of this information on student achievement, however, schools need fiscal and program flexibility. Schools, though, can get "off-track" if they are not held accountable for student success.

- ***School Districts Have Dual Roles: Support School-Site Improvement and Hold Employees Accountable for Their Performance.*** Support activities include providing flexibility, training, expertise, and feedback needed by teachers and schools. Accountability includes creating consequences for poor performance and providing information to parents and voters on student outcomes in each school. In the current environment, districts often create roadblocks to site innovations.

- ***The State Has "System" Support and Oversight Responsibilities.*** Support responsibilities revolve around resources: funding, flexibility, and information. In its oversight role, the state would intervene in local budget or policy decisions only when districts or schools have little incentive or ability to address a particular problem.

A State Strategy That Appears To Work

A recent evaluation of state strategies adopted in Texas and North Carolina reenforces our assessment of appropriate state roles. The evaluation concludes that critical elements of the states' strategies have resulted in sustained long-term increases in student achievement. These elements include:

- State content standards accompanied by a student assessment system.

- A state accountability system that has consequences.

- Deregulated state fiscal and program policies.
- State data systems to encourage continuous local improvement.
- A long-term state commitment to these strategies.

The LAO Master Plan--State Roles

Support District Needs. The state has critical K-12 responsibilities that support school and district improvement in the following areas:

- ***Funding***. The state needs to ensure funding is adequate to allow schools to meet state performance standards. In addition, the state should authorize local-option revenue sources that provide funding for local priorities.
- ***Flexibility.*** The state should create a stable, simple, state budget and policy environment that provides substantial flexibility for schools and districts.
- ***Information.*** Helping teachers, parents, and voters obtain important information about schools and successful school programs is also an important state function.

Correct Weaknesses in Local Control. Critical to the success of a local control policy, the state needs to monitor and correct system problems that can work to reduce the effectiveness of district programs. These include:

- ***Governance.*** The state should review the "health" of local school boards--whether they have the power to make decisions in the best interests of students and whether local board elections create an effective mechanism for accountability to voters.
- ***Increase Competition.*** Increasing competition within the public school system can make districts more efficient and more responsive to parent needs. Competition can be created by strengthening existing intra- and inter-district parental choice programs and charter school laws. The state should also provide information needed to allow parents to make good choices.
- ***Intergovernmental Cost Shifts.*** Districts may inadvertently shift costs to other governmental entities. In addition, other governmental agencies also may shift costs onto the K-12 system. The state should play a lead role in resolving these problems.

The LAO Master Plan--Local Roles

How far should the state go to implement its vision of the district/school-site relationship? Should the state require school-based budgeting? Should it require state takeover of failing schools?

Our suggested master plan would empower districts to determine how to structure the district/site relationship. A policy of local control requires the state to let local decision makers develop responses to the desire for improved student performance. Empowering the local process creates greater local accountability for student success and permits the development of policy that is tailored to meet the needs of students attending local schools.

Implementing The Master Plan

Our master plan could result in significant changes to existing state practices in K-12 education. A few examples follow.

Give Districts Greater Control Over School Finance. The state would simplify and equalize K-12 funding to districts. A much larger share of state funds would be distributed through a base block grant. Categorical programs would be grouped into a relatively small number of broad funding programs which would provide great latitude to districts over the use of funds. Local-option revenues would give districts a way to supplement state funds to meet local priorities.

Deregulate the Education Code--Employees. The state should also reduce and simplify state regulation of schools currently contained in state law. For example, existing law takes two approaches to local employee issues--collective bargaining and specific requirements contained in the state Education Code. These requirements greatly reduce local administrative flexibility. Under our suggested master plan, the state would eliminate most of these laws and let collective bargaining or other local processes establish employee policies that meet district and employee needs.

Restructure State-Level Governance. State governance has a number of problems resulting from excessive separation of policy responsibilities. For instance, the state Superintendent of Public Instruction (SPI) and State Board of Education (SBE) are separate entities that have a number of overlapping responsibilities. This results in conflict over "turf" and power. The state could restructure the SPI's scope of responsibilities in a way that gives a Governor-appointed executive significant implementation and policy responsibilities, yet maximizes the voice of the elected SPI to promote system accountability and local control. Consistent with these changes, the state could recast the SBE into a long-term policy board, monitoring program effectiveness and acting as a sounding board for major state program decisions.

Introduction

In our *Analysis of the 1998-99 Budget Bill*, we called for the development of a master plan to identify the appropriate state role in improving the effectiveness of the K-12 education system. This report is designed to continue the development of the master plan concept.

In our view, a master plan is needed because the state role in K-12 education has changed significantly over the last 25 yearsfrom a system that was primarily local in nature to one that is heavily controlled by state decision making. This change has occurred, however, without any clear vision as to how the K-12 "system" can best foster high-quality schools. As a result, the Legislature and Governor must make major decisions about the K-12 system without a long-term strategy. As one district superintendent commented, "California has an education system with no conceptual framework."

Our purpose in encouraging the development of a master plan is to help the Legislature create a coherent structure of policies, roles, and responsibilities that would guide decision making over time. The plan should address those governance issues that reduce the effectiveness of local school boards in making decisions in the best interests of students. It also should clarify the state and local roles in school finance decision making. In short, the plan should express the Legislature's long-term plan for improving the operation of the K-12

system.

This report provides a starting place for a legislative discussion of a K-12 Master Plan. Chapters 1 and 2 build the case for why the state needs a K-12 Master Plan. Chapter 1 reviews the recent history of K-12 governance changes in California, and Chapter 2 discusses the major governance provisions contained in the California Constitution. Chapters 3 and 4 identify education reform principles and discuss the strengths and weaknesses of state and local program control. Chapters 5 and 6 identify what we believe are the appropriate state, district, and school roles. In Chapter 7, we illustrate how our findings would affect existing state policies.

The master plan we outline in the following pages is our attempt to provide a framework for legislative discussion. We recognize there are many approaches the Legislature may take. The suggested elements of our master plan approach attempt to build on education research findings and take advantage of the strengths of state and local governance to improve California's K-12 education system.

A Focus on Statutory Changes

The Constitution contains several provisions that constrain the Legislature's flexibility in addressing K-12 education issues. At the state level, for instance, the Constitution creates the SPI, who is elected independently from the Governor. The property tax provisions of Proposition 13 and the school funding guarantee of Proposition 98 are also in the Constitution.

For the purposes of this report, we have tried whenever possible to identify solutions that can be accomplished through changes in state statutes. For the most part, the Constitution does not pose a barrier to the development of an improved long-term strategy, as almost all major levers of control are currently in the state budget or Education Code or could be added to the statutes by the Legislature and Governor. For that reason, this report contains only one recommendation for a change in the Constitution.

Chapter 1

A Brief History of School Governance

Major Governance Landmarks

- The *Serrano* v. *Priest* (1971) decision resulted in state-equalized base funding levels.
- Collective bargaining authorized by the state (1976) required districts to share decision making over district spending priorities.
- Voter approval of Proposition 13 (1978) resulted in the state

assuming responsibility over K-12 finance (and, over time, policy).

To understand the development of the current K-12 governance (or decision-making) system, it is important to trace its history. Many important changes have taken place over the past 30 or so years. The trend over this period is characterized by increasing state involvement in K-12 decision making at the expense of local control. As a result, while schools appear to operate today as they did in 1965, this appearance masks major changes in the structure of school decision making.

In this chapter, we briefly discuss the history of school governance and finance in California from 1965 to 1998. Figure 1 (see page 8) summarizes the major landmarks in education that have had significant impacts on the governance of the state's K-12 system. These landmarks illustrate the effect of three influences on governance: the role of courts, the initiative process, and the state.

Figure 1

Major Landmarks in School Governance

State Constitution of 1879

- Created state Superintendent of Public Instruction and state Board of Education. Established a system of free common schools.

State Statutes as of 1965

- State provides textbooks, regulates aspects of teacher employment. School boards given broad authority over most aspects of education. Most funding derived through local property taxes.

***Serrano v. Priest* Court Decision--1971**

- Prohibited wealth-based differences in local property tax revenues. Mandated state action to reduce differences in general purpose funding among districts.

Collective Bargaining--1976

- Required school districts to share with employee unions the authority to set school funding priorities.

Proposition 13--1978

- Eliminated school district discretion to set local property tax rates for program purposes. State assumed responsibility for determining the level of school funding and how funds are spent.

Proposition 98--1988

- Reduced state flexibility over funding levels for K-14 education. Increased focus on the state budget as a policy tool.

State Statutes as of 1998

- Significant state regulation of schools. State dominates financial decisions, including earmarking 30 percent of state and local funding for state-directed categorical programs.

The Constitution

The Constitution requires the establishment of the state's school system. Historically, the Constitution has left to state statute almost all details regarding the design of the system. Two specific state mandates were included in the Constitution: the state was required to (1) provide to each district a minimum of $120 per student, and (2) provide free textbooks for use in grades one through eight. The Constitution also requires an elected SPI, a state Board of Education, and county offices of education.

State Involvement as of 1965

Prior to 1965, state involvement in K-12 education matters appears to have been limited. There were apparently relatively few state statutes restricting local flexibility. In addition, state budget documents from 1965 indicate a minimal state fiscal presence. Slightly less than $1 billion from the General Fund was dedicated to K-12 schools, mostly distributed as per-student grants to districts (including a bonus to unified school districts). The state also provided additional funding for teachers' retirement, textbooks, and school construction bonds [Legislative Analyst's Office (LAO), 1965].

The year 1965, however, appears to have signaled the beginning of a new era of state activity in K-12 education. In 1965, the Legislature created five new funding programs, including direct funding for county offices of education, student transportation, and "gifted" programs. The state also contemplated action on two major additional areas: equalization of school district revenues and providing "compensatory" funding to meet the needs of educationally disadvantaged students [LAO, 1965].

Serrano v. *Priest*

In 1971, the California Supreme Court found the state's school funding system unconstitutional. Specifically, it found that communities with greater property wealth provided substantially higher levels of school district funding than other districts. These "wealthier" communities generated this higher level of revenues because of high local property values. Communities with low property values, on the other hand, were unable to provide the same level of fundingsometimes even when the poorer communities taxed themselves at a higher rate. The court found the differences between "rich" and "poor" districts unconstitutional on the basis that students in low property wealth districts were denied an equal educational opportunity.

In response to this decision, the state created "revenue limit" controls, which capped the amount of state and local general purpose revenue a district could receive (although district voters could override the revenue limit cap). To reduce the differences among districts, the state made two major changes. First, the state permitted low-revenue districts to receive larger annual increases in their revenue limits than high-revenue districts. Second, the state also increased funding to low-revenue districts. In 1974, this system was ruled unacceptable by the court because it did not equalize funding quickly enough [Goldfinger]. In 1977, the Legislature passed a second bill that was designed to address the *Serrano* funding issues. This solution was rendered inoperative due to the property tax changes contained in Proposition 13. The final solution was crafted as part of the Legislature's response to Proposition 13 (see below).

The *Serrano* decision resulted in a major change in school governance. Two principles evolved from the court opinion that are major structural pillars of today's school finance system: (1) a goal of equal general purpose funding for districts (on a per-student basis) and (2) a prohibition on wealth-based differences in K-12 funding.

Collective Bargaining

In 1976, the Legislature authorized collective bargaining for school employees. Previously, districts were required to "meet and confer" with employee unions, which directed school officials to discuss with these employee groups issues of mutual importance. Employees and unions have fewer rights and tools to negotiate under meet and confer than under bargaining. For instance, collective bargaining permits employee unions to develop binding contracts with school districts that cover "wages, hours and other terms and conditions of employment," such as employee benefits, teacher transfer policies, maximum class sizes, and evaluation procedures.

State statutes in place by 1976 also contained various employment-related mandates, such as state requirements for teacher tenure and dismissal, layoff notification, and maximum class sizes. These mandates were not eliminated by the Legislature upon enactment of collective bargaining. Authorizing collective bargaining on top of the existing statutory requirements essentially created a floor for the beginning of bargaining in districts [California Commission for Educational Quality].

Collective bargaining represents a second important change in school district governance. Districts that enter into collective bargaining agreements *share* power with unions over a wide range of decisions that affect district educational policies and the distribution of district resources. Unions also have several powerful tools (such as strikes) to obtain their desired goals. As a result, power sharing established through collective bargaining requires districts to pay special attention to the needs of teachers and classified employees as expressed by their unions and balance those needs with other district needs.

Proposition 13

The enactment of Proposition 13 by voters in 1978 completely rearranged the state's school governance and finance system. Proposition 13 made two fundamental changes affecting the school system. First, it set a statewide property tax rate of 1 percent, or roughly half the average tax rate at the time. Second, it prohibited local governments--including schools--from changing the 1 percent rate.

State Replaces Revenue Losses. With total property tax revenues collected by local government cut in half (and the state having a large budgetary surplus), the state felt compelled to cushion the impact of Proposition 13 on local government services. To accomplish this for K-12 education, the state provided sufficient funds so that districts received the same amount of *revenue limit* funds after the initiative as before (albeit with a substantially greater share of state funding). Additional state funds were appropriated to continue equalizing revenue limits. The state also assumed funding responsibility for other local education programs, such as adult education.

By 1983, these changes created a system that the court concluded successfully satisfied *Serrano's* equalization test. One study showed California's national ranking on school funding equity rising from 45th in 1972 to 8th in the nation in 1982 [Brunner]. The effect on individual school district funding levels differed greatly, however. For instance, between 1969 and 1989, revenue limit funding for high-wealth districts often did not increase quickly enough to compensate for the effects of inflation. During this same time period, low revenue limit districts experienced significant increases, even after adjusting for inflation [Brunner].

Property Tax Limitation. Proposition 13 also instituted a 1 percent property tax rate cap. (The cap can be exceeded only to pay for certain debt.) The allocation of revenues derived from the 1 percent rate eliminated almost all local discretion over district operating revenues and represented a fundamental change to school

governance. The *Serrano* decision started the erosion of community choice over school funding levels. Proposition 13 and the state's response to the initiative placed the Legislature and Governor in the pivotal decision making role over school funding levels.

Over time, the property tax limit substantially eroded the independence of school districts and governing boards:

- ***Leadership Shifted to the State.*** In 1965, district governing boards and superintendents were key community leaders, charged with developing local support for property tax levies. After 1978, these same officials now looked to Sacramento for leadership to find funding for program improvements. Increasingly, schools and districts blamed the state for the problems experienced by local schools--fairly or not.

- ***With Leadership Came Greater Involvement.*** In 1965, state funding came to districts with few strings. After 1978, the increased role of the state encouraged a greater state focus on the efficient and effective expenditure of K-12 funds. This led to increasing state involvement in the allocation of state funds and other K-12 policy choices.

- ***Increased Management Complexity.*** In 1965, school finance was relatively simple--districts had great flexibility to craft a budget to best address student needs. School district budgets were completed by March in order to provide the time needed for planning and developing the next year's school program. After 1978, state and federal categorical programs and mandates required districts and schools to creatively assemble an integrated education program from a complex mosaic of fund sources and program restrictions. In addition, the state budget calendar conflicted with the local budget and planning process. Districts had to wait until the end of the state budget process--June or later--to learn about the next year's funding levels and state program requirements.

While Proposition 13 made major finance and governance changes, the average citizen may have noticed few changes in the operation of schools. The initiative did introduce major new dynamics into the governance and finance system of schools. Over time, the effects of these changes have become more apparent.

Proposition 98

Proposition 98 can be viewed as an outgrowth of Proposition 13. While the earlier initiative resulted in the state assuming primary responsibility for local education funding, Proposition 98 required the state to annually appropriate a specific amount of the state General Fund budget for education. In other words, now that funding for schools was a primary state responsibility, schools wanted a guarantee of a stable and adequate level of resources.

Proposition 98 focuses almost exclusively on creating a guaranteed budget for schools. The initiative establishes this guarantee by committing the state to provide additional funding each year to reflect (1) the number of new students that schools serve and (2) growth in the state's economy.

Proposition 98 reenforced the importance of the state in financial matters. By requiring a minimum level of spending, the initiative guaranteed education a higher budget priority than almost all other program areas. Even ten years after its passage, however, it is not clear whether Proposition 98 has increased total spending for K-12 over the long run. Nevertheless, the initiatives did serve to highlight the important state role in the

K-12 system and, in particular, school finance.

Education Statutes as of Today

Today, the state is far more involved in most K-12 education issues than in 1965. Governance changes that occurred during the 1970s contributed to the greater state involvement. In particular, the *Serrano* v. *Priest* court decision, the advent of collective bargaining, and the passage of Proposition 13 fundamentally diminished the authority of school district governing boards.

The state's response to these landmark events also played an important part in weakening local control. Like other states, California's efforts to increase student achievement often "neglected" the interests of school boards. Further, "state-level changes reflected a lack of confidence by governors, legislators, business leaders, and others in school boards and in educators at the local level" [Danzberger].

This lack of confidence showed in the design of state reforms. The programs from the 1980s sought to improve student achievement in several ways--increasing the length of the school day and school year, creating new professional opportunities for teachers through the Mentor Teacher program, and requiring changes in teacher compensation schedules. These reforms imposed the state's judgment on decisions that traditionally were made by local school boards.

The 1990s saw a continuation of this strategy. More new programs were added, including class-size reduction in kindergarten through grade three, increased funding for textbooks, staff development, and renewed interest in state testing and curricular standards. Similar to the 1980s programs, the state often imposed its views on local programs rather than permitting school boards to design local approaches.

Not all state reforms were so "top-down" in character. For example, state efforts to coordinate local curricular and instructional approaches attempted to *encourage*--rather than require--districts to move in specific directions. As part of this strategy, the state developed "curriculum frameworks" that described the material teachers should cover by grade and subject area. These frameworks were then linked to state textbook approval, teacher training, and the design of student assessments.

As of today, state statutes present a formidable presence in educational policy making. State policy--as expressed through the Education Code and the state budget--has resulted in an extremely complex policy and budget environment for districts, schools, and teachers.

For the most part, the development of the current state system was not guided by a long-range state strategy. Instead, the state presence in K-12 education results from the accumulation of large and small policy decisions that generally increase the state's role at the expense of school districts. The development of a state master plan could guide the policy process in making decisions that support a more deliberate and effective state reform strategy.

In the next section, we discuss K-12 education issues raised by the provisions of the California Constitution.

Chapter 2

Constitutional Issues in K-12 Governance

Constitutional Provisions

- Grants broad state authority over K-12 issues. No guarantee of local control.
- Disperses state K-12 authority among many officials, including the Superintendent of Public Instruction, Legislature, and Governor.
- Separates control over school finance from program responsibility.

The governance structure of the K-12 system begins in the Constitution with the creation of state and local entities that are vested with certain powers. This chapter explores constitutional design principles and the role the California Constitution plays in the governance of the school system.

Governance Principles--Separation and Balance

The structure of American government is based on separation of powers and balance of power. Separation of powers disperses power to the three branches of government and ensures that the branches are accountable to voters and to the other branches. Separation of powers assigns governmental power to an executive, a legislative, and a judicial branch. Each part of government has its own responsibilities and its own power to "check" the power of the other branches.

Separation of powers among *levels* of government is a second way to disperse power. For instance, the federal constitution gives the federal government few specific powers. Among the more significant are the power to regulate interstate commerce and the power to maintain a standing army. Most powers are reserved for the states.

To ensure that no single branch dominates the others, balanced government provides checks on each level and branch. These checks include things like vetoes and overrides, referendum or initiatives, judicial reviews, and legislative oversight (within or between levels of government).

The California Constitution uses these ideas to structure and balance state government. There are, however, four important features of the Constitution that play an important role in the governance of the K-12 system:

- The creation of a State Superintendent and a School Board.
- Restrictions on property tax rate increases for K-12 education (Proposition 13).
- A minimum funding guarantee for schools and community colleges (Proposition 98).

- The absence of a constitutional recognition of school district autonomy.

We discuss the import of each of these features below.

The Role of the State Superintendent and the State Board

The Constitution disperses state power to more independent executive officers than does the federal constitution. In K-12 education, the Constitution creates the state SPI and the SBE. The SPI acts as the primary executive over state K-12 education policy. The Superintendent is elected as a nonpartisan statewide officer, which makes the Superintendent accountable to voters. This accountability to voters gives the position a measure of independence from the Governor.

The Governor retains significant power over many executive decisions. Through his power in the legislative and budget process, the Governor can shape state policy towards schools. In addition, state statutes require the Governor to appoint members of the Board. State statutes and court precedent place the SBE as the policy setting agency and the SPI as the executive responsible for carrying out the board's policies.

This diffusion of power introduces many different views on educational issues. Diffuse power inhibits major changes in education policy unless there is broad consensus that such changes are necessary. This increases the stability of the system. On the other hand, this diffusion of power can create conflict and confusion about state policy when differences of opinion arise among the various entities. For instance, some district administrators believe that recent disagreements between the SBE and the SPI created major difficulties in the local implementation of new programs authorized by the Legislature.

The 1996 report of the California Constitutional Revision Commission recommended eliminating the SPI in favor of a Governor-appointed education executive. The constitutional issue surrounding the role of the SPI and the SBE hinges on the value of separation (the SPI's independent voice on education) compared to the importance of a unified state education policy and implementation structure. Is the diffusion of power helping to "balance" powers in Sacramento or is it inhibiting the state from sending clear messages to districts and schools about state education policy? We discuss this issue later in this report.

Separation of Finance and Policy Control

A second important feature of the Constitution is that it assigns to the state responsibility for K-12 finance. Two constitutional features created by voter initiatives have shaped school finance policy:

- Proposition 13 (1978) prohibits schools (and other local governments) from increasing local property tax rates to increase local general purpose K-12 funding.

- Proposition 98 (1988) establishes the minimum level of funding that must be appropriated to K-12 education and community colleges each year.

As we discussed in Chapter 1, at the beginning of the 1970s, local control characterized school governance. Schools had great autonomy over the design of local programs and the financial control to increase or reduce revenues to pay for those programs. The passage of Proposition 13 (and the Legislature's response to the *Serrano* decision) separated, to a great extent, local fiscal control from local program control. Districts had

little control over revenues after Proposition 13. As a result, the state assumed responsibility for major fiscal decisions, while districts still made most program decisions.

This separation, however, encouraged two major trends in the governance of schools. First, by assuming control over school finance issues, the state also found itself intervening more often into program issues that previously had been considered local in nature. "What had once been essentially a locally controlled K-12 public school system with some state financial support, had been transformed in relatively few years into a state controlled and state funded system" [Rubinfeld].

Second, the shift of responsibility for finance also altered the checks and balances of the K-12 system. The separation significantly diluted local accountability for the success and failure of local schools. "[S]errano and Proposition 13 together have weakened incentives for political and economic accountability on the part of local school officials" [Rubinfeld]. This occurs because local educators and parents "are not accountable for the costs involved in the educational programs."

The combined effect of these two trends resulted in a long-term movement of policy control to the state. Thus, the state's history suggests that, without explicit state policies about the role of the state in K-12 education, a separation of finance and policy responsibilities may be inherently unstable. That is, financial control may ultimately lead to a significantly greater role in program and policy.

Recognition of Local Control

The final important K-12 feature of the Constitution is the broad authority given to the Legislature and Governor over most elements of school operations. The Constitution does not create school districts or guarantee any level of autonomy in the operation of local schools. Instead, the Constitution requires the state to establish a system of free common schools, leaving most decisions about the details of the system to statute and regulation.

As a result, the Constitution requires an ongoing effort by the Legislature, Governor, and SPI to consider issues of structure and balance--that is, whether local school governing boards have sufficient ability to design and implement local programs that meet district needs and preferences. With no constitutional stature, schools have little recourse other than to follow state policies that diminish local authority.

Conclusion

The few state constitutional provisions for K-12 education have great importance. They have led to increased state power over local K-12 issues and blurred accountability for the success of the K-12 system. This need not be the result, however. While the constitutional provisions on K-12 education are important, most governance issues are left to the Legislature and Governor to determine through statute.

Thus, the state can, within the existing constitutional framework, revise its educational structure to accommodate most of the governance changes brought by the 1970s and use the state's power to improve student achievement. To accomplish this change, however, requires a consensus on the direction of reform and a plan that would guide state policy over the long term. The development of a state K-12 master plan would fulfill both needs.

In the next two chapters, we review findings from education and policy research that provide a foundation for the development of a different educational structure in California.

Chapter 3

Lessons From Education Research

Education Research Findings

- Education takes place in the classroom.
- Teachers need a school environment that encourages improved teaching methods.
- Districts should support school improvement and hold schools accountable.
- States should assess student progress, hold districts accountable, and eliminate barriers to school improvement.

Educational researchers have learned a great deal over the last two decades about how districts and schools work. The lessons from this research provide important clues about how best to structure K-12 governance. This chapter reviews this evidence, starting with the classroom level and ending with the state level.

Education Is What Occurs in the Classroom

The interactions between teachers and students constitute the act of "educating." Teaching (or educating) constitutes the system's primary "output"the rest of the K-12 system establishes the content and supports the quality of education. Many current reform efforts, for instance, are aimed at improving the quality of curricular and instructional practices.

To be effective, however, these reform programs must convince teachers that improved teaching methods will translate into increased student performance. Like other professionals, teachers are reluctant to abandon old teaching methods. Research suggests that mandating solutions may create resistance to district or state objectives. "Teacher commitment and involvement seldom respond to mandates or coercive threats beyond brittle compliance" [Cuban]. Research indicates that teachers are willing to try new teaching methods if they (1) are active participants in the process, (2) have a measure of confidence about its consequences for students, and (3) feel it is safe to give up old responses and learn something new [Elmore].

The bottom line of these research findings is that *educating* is the product of the K-12 system. Improving the act of educating requires intensive teacher involvement in the identification of the problems and in the crafting of solutions. The need for involving teachers in the improvement process means the school site must play a significant role in this process.

The Critical Role of the School Site

Since school improvement requires improved teaching practices, educators interested in reform have created school-wide processes that involve teachers in the process of reform. Research identifies the school site as the organizational unit in which school reform must take root. The school principal becomes the reform manager and leader. Teachers take on a dual role of (1) team members responsible for creating a high-quality educational program and (2) the employees responsible for implementing the school program.

Importance of Local Flexibility. This view of the improvement process suggests that schools need significant flexibility to craft successful strategies. The importance of teacher buy-in implies that educational improvement is more likely to result from local responses to problem--sone that includes the perspective of teachers and principals--than programs designed at the state level.

Local flexibility is important for a second reason: local conditions and student needs differ greatly from school to school and district to district. "[R]eforms succeed to the degree they adapt to and capitalize upon variability" [Elmore]. If school plans cannot accommodate those differing conditions and needs, a program may not be as effective as possible. Since the demands on schools in California are as varied as the communities they serve, these findings suggest that schools need significant flexibility to meet the needs of students and communities.

Recent research concludes that states and districts create significant impediments to site flexibility. As a result, many reform efforts have focused on "deregulation"that is, an elimination of specific requirements and restrictions on the way schools do their business. State experiments with limited deregulation of schools show that state rules and regulations create roadblocks--budget restrictions, "seat-time" accountability systems, textbook mandates, and limits on schools' use of time are often cited as particularly inhibiting state restrictions.

Removing state restrictions can spur teachers to reassess whether their teaching practices are as effective as possible. Researchers found that deregulation removes state and district policies as an excuse for past teaching practices. They found "a liberating effect of deregulation on school-level planning" [Fuhrman], which spurs teachers and principals to reexamine the way education is delivered. In the process, many school-level changes occur that could have been adopted without deregulation. "[D]eregulation illuminates other barriers to change, forcing schools to at least confront them, and, hopefully, to deal with them" [Fuhrman].

Establishing school site flexibility over the school's educational program results in several benefits. Flexibility gives the school site the ability to shape educational programs to meet the needs of students attending each school. Flexibility also empowers teachers to use their knowledge of their craft and of the needs of their students to improve the quality of the school's educational program. This empowerment creates a greater sense of teacher accountability to use instructional and curricular tools that maximize student achievement.

The District Role in School Improvement

The critical roles of school districts in improving schools are not as well documented as school site roles. Indeed, during the late 1980s and early 1990s, some researchers concluded that district administrators and governing boards contributed little to school reform efforts.

More recently, however, researchers are finding important district contributions to the improvement process. These new roles for districts focus on school-site support and accountability, including:

- Increasing school site authority to make critical educational and resource decisions.
- Increasing school site accountability for improving student achievement.
- Providing stability and support for key ingredients of the improvement process.

We discuss these roles in detail below.

District Deregulation. As discussed above, school sites need flexibility to craft a responsive education program. Research has identified *district* policies as one source of restrictions. In fact, a survey conducted as part of an evaluation of the Demonstration in School Restructuring Program (Chapter 1556, Statutes of 1990, [SB 1274, Hart]) showed that teachers found district policies *more* restrictive than state policies.

Research identifies many ways districts can erect barriers to effective instructional practices. Local school board policies, district budget practices, and union contracts may contribute to district-created barriers to school flexibility. In addition, noneducational policies--such as student transportation policies, purchasing, and contracting policies--may restrict school autonomy.

Districts have considerable latitude to shift responsibility for major decisions from the district level to school sites. State and federal laws and regulations, however, make deregulating district policies a major challenge. This is because district restrictions are, in part, a response to state and federal policies and programs. The California School Boards' Association estimates that there are about 800 specific policies that district boards should adopt in response to state and federal law. In implementing these policies, districts inevitably create greater complexity and restrictions on school site practices.

Local Accountability. While shifting decision making to school sites can give teachers and principals more freedom, sites still need to be held accountable for creating effective educational programs. For that reason, researchers point to the need for district accountability programs that hold schools responsible for increasing student academic outcomes. District accountability programs have several benefits in that they communicate district goals and performance to a wide range of internal (teachers, principals, etc.) and external (parents and voters) constituencies. Most districts currently address accountability primarily by controlling school inputs and processes, with little emphasis on student outcomes. A recent state evaluation, for example, concluded that "public schools are not held accountable for academic outcomes by districts and districts are not held accountable by the state. . . " [SRI International].

There are several factors that contribute to the lack of local outcome accountability. Board members express concern about the difficulty in finding time to focus on issues such as school and district reform and academic outcomes. The problem of board member time and focus appears to be a national concern, one that some researchers believe contributes to slow district responses to school improvement issues [Danzberger].

In addition, districts must satisfy the state's current input-process requirements--ones that emphasize *compliance* with state and federal law, not educational outcomes. Currently, the State Department of Education (SDE) conducts regular audits of district program and financial compliance and the State Controller oversees the annual financial audit of each district. As a consequence, district officials believe they *are* responding to state accountability requirements.

District Stability and Support. Research also suggests that districts can undermine school site improvement efforts by failing to create the policy and management environment needed for reform efforts to succeed. As discussed above, one ingredient for improving school site programs is that teachers and principals feel that it is safe to try improved ways of teaching. An unstable district environment--caused by frequent changes in staffing or policy--creates uncertainty over future management and policies and reduces risk-taking innovations that may lead to more effective practices.

Districts must provide critical resources that support the improvement process. Districts should help schools obtain staff development services, which are widely regarded as an essential factor in improving the curricular and instructional choices of teachers. Other district support--such as data analysis and evaluation, and other assistance with school site reform--is also considered extremely important.

Conclusion. District governing boards (and superintendents) play a critical role in the school improvement process. The role of governing boards and district administrators that is suggested by education research suggests that their most important function is in supporting the school site by (1) creating an environment at the sites that fosters innovation and improvement and (2) establishing local accountability.

The State Role

State reform strategies have gone through several recent cycles. Like California, many states implemented longer school days and longer school years during the 1980s. Finding relatively small impacts from these reforms, some states began experimenting with school deregulation in the late 1980s and early 1990s. By 1993, at least 30 states had enacted a waiver process to allow more district and school flexibility.

- Modest improvements gained by limited deregulation spurred states to ease their rules even further. This latest round of deregulation, however, has been accompanied by an emphasis on outcomes. "In the past, schools were held accountable primarily for meeting standards about inputs and processes. Increasingly, states are including performance measures . . . in the criteria for accreditation" [Fuhrman].

California created two demonstration programs designed to test the impact of deregulation on school site performance. The first was the School Restructuring Program, which provided modest new funding and expanded waiver authority to about 100 schools. An early evaluation of the program found that reform in some schools looked promising for higher student achievement. In other schools, reforms got off-track, never really focusing on student achievement [Inverness].

The second route to deregulation chosen by California, this time combined with accountability requirements, was charter schools. California's program provides no new funds, but almost total freedom from state laws and regulations. A contract with the school district or other sponsor describes the charter school's operating rules and desired outcomes. California's law does not specify charter school outcome measures; it simply requires the contract contain the "measurable pupil outcomes" the charter will use to measure its progress.

The impact on student performance of California's charter school program is not yet clear. A 1997 evaluation was unable to assess the impact of school reforms on student achievement. One important finding of the evaluation, however, points out the weakness of the outcome provisions of the legislation. Evaluators found that some charters did not cite any measurable pupil outcomes for assessing the school or did not link actual student performance with an assessment of the charter school's performance [SRI International].

Statewide Reforms. Some states have developed a broader strategy of deregulation and accountabilitybroader

in that it rejects the school-by-school approach implicit in the School Restructuring Program and Charter School Act. These states encourage *all* schools in the state to improve student outcomes. A recent evaluation of these "systemic" approaches to school improvement in Texas and North Carolina found the states experienced "significant and sustained" gains in academic achievement over a seven-year period following state reforms. The study concluded that the gains were due to two factors.

First, reforms pursued by Texas and North Carolina had many common elements that created "a substantial infrastructure for supporting a process of continual improvement in education" [Grissmer]. Figure 2 displays these elements. Both states developed accountability systems around state standards for what students should learn. The accountability systems created incentives for schools to focus on increases in student achievement. Both states also deregulated schools to a significant extent. Deregulation was considered a necessary condition for establishing accountability at the local level. Finally, both states assisted school reforms by collecting and disseminating data that informed the improvement process.

Figure 2

Common Elements of School Reform

North Carolina and Texas

Statewide Academic Standards

- Academic standards were developed that gave teachers clear objectives for what students should know.
- Both states also worked to align textbooks and curriculum with these standards.

Holding All Students to Statewide Standards

- All students, except for certain special education students, were expected to achieve state academic standards.
- State accountability systems required schools to assess academic progress for all major subgroups of students.

Accountability Systems That Have Consequences

- Both states developed stable statewide tests that were linked to the state standards. State accountability systems were based on the state tests.
- Schools are evaluated primarily on increases in student scores with improved performance rewarded financially.
- Both states have the power to "disenfranchise districts" based on sustained levels of poor performance.

Increasing Local Control for Administrators and Teachers

- In each state, unnecessarily restrictive statutes governing schools and teaching were repealed. Constraints on district administrators and principals for how money was spent were reduced.
- These actions were needed because "teachers and administrators could not be held accountable unless they were given the authority and flexibility to determine how best to meet state standards."

Computerized Feedback, Data for Continuous Improvement

- Both states have a computerized system of storing and providing access to testing data.

- These data are made easily available to teachers, principals, and school districts as information needed as part of the continuous improvement process.

Source: "Exploring Rapid Achievement Gains in North Carolina and Texas," National Educational Goals Panel, November 1998.

Second, both states established a policy *process* that refined and supported the state reform process over more than a decade. One key ingredient to this process was sustained and informed participation from the business community and political leaders in both the executive and legislative branch. Another ingredient was the consistency of the reform agenda. "Efforts to improve education have all too often been examples of reform du jour." Despite changes in leadership over time, leaders chose to "continue the reform agenda and to find ways to build on and improve it" [Grissmer].

The report acknowledges that other states have tried similar reforms, but did not experience similar rapid gains in achievement. The report emphasizes two factors that appeared to make the difference in North Carolina and Texas. Both states viewed the state role in school improvement as a long-term endeavor requiring stability and continual refinement of state policies. The other factor was the sustained commitment to the reform strategy by political and business leaders.

Conclusion

The lessons from educational research is surprisingly consistent. The road to improved student performance leads through the individual teachers and the school site team. Financial and policy flexibility at the school site is essential to eliminate barriers to reforms and hold site employees accountable. Districts and the state can assist this process by deregulating the input process rules that currently govern many school operations and by enacting strong accountability systems that create incentives for improved performance.

Yet, as the report on North Carolina and Texas indicates, enacting these systemic changes may not have much effect on schools without a sustained state commitment to a vision of school governance. Just as schools and districts must learn through experience and research how best to meet student needs, the state also must learn how it can structure state K-12 policies and budgets to "balance" local control with statewide concerns.

We think the development of a master plan for K-12 education can help the state take advantage of the lessons of educational research in the design of the state's education system. The plan can describe a specific strategy for improving the K-12 system that reflects the strengths and weaknesses of each level of governance. A master plan also can offer a process for developing a shared view of the appropriate state and local roles in educational governance and the general solutions to the problems plaguing the system. Both elements appear critical to long-term success.

In the next chapter, we review principles of program design to begin the process of identifying state and local roles in the K-12 system.

Chapter 4

LAO Guidelines on Governance and Finance

Program Design Principles

- Local control takes advantage of information on student needs.
- The state's strength is in addressing problems that can result from local control.
- The state role should recognize the incentives that local decisionmakers face.

In the early 1990s, the LAO published a report that explored governance and finance issues in local government--*Making Government Make Sense* (MGMS)," [LAO, 1993]. This report developed a set of principles to guide decision-makers in thinking about governance issues. The report examined the strengths of state or local control over program policy and funding decisions and presented guidelines for effective program design. In the following pages, we review the principles of reform developed in the report and suggest how to apply them to the education system.

Which Level of Government Should Exercise Financial and Program Control?

In considering K-12 program design issues, the first issue is: Which level of government should make major implementation and funding decisions: the state, districts, or the school sites? As Chapter 3 suggests however, the question is somewhat narrower: What kinds of decisions should *each level* be responsible for? This recognizes that each level has an important role to play in the governance of the system and that each level should be given sufficient authority to succeed in that role.

State and local governments bring different strengths and weaknesses to the question of K-12 program and fiscal control. The governance structure of education should take advantage of the things state and local governments do well.

Advantages of Local Control. Figure 3 (see page 28) displays the advantages of local control. The advantages focus on the greater ability of local officials to satisfy local needs and preferences. In addition, diversity in local services (and taxes) permits citizens to move to an area that delivers their desired level of services. Local innovation and experimentation is also an important advantage. Permitting diversity in the way services are delivered can lead to greater program effectiveness and efficiency.

Figure 3

Advantages of Local Control

Recognize Local Diversity

- Local control permits local agencies to better reflect the service demands of residents. Service delivery among local government also permits citizens to relocate to areas that reflect a desired level and mix of services.

Improve Information Availability

- Local officials usually have better information than the state about local conditions and citizen needs.

Facilitate Citizen Access

- Local decision-making permits greater citizen access to government decisions.

Encourage Experimentation and Innovation

- Local control encourages different approaches to problem solving to find more effective and efficient programs.

Advantages of State Control. Not all policies should be left to school districts, however. Figure 4 displays the advantages of centralization, or state control over programs. In general, the advantages of state control reflect the state's ability to address issues that districts have little ability or little incentive to resolve. As a consequence, a resolution often requires involvement of a higher level of government.

Figure 4

Advantages of State Control

Recognize State Benefits of Local Programs

- State funding can compensate local government for statewide benefits of local programs.

Eliminate Incentives for Cost Spill-Overs

- State funding and program requirements can mitigate local incentives to shift costs to other local governments.

Establish Statewide Uniformity

- State program control can ensure that a minimum level of program services are provided. Similarly, the state can protect certain groups who need special services.

Redistribute Wealth

- State control over the distribution of funding permits a more even distribution of funds to programs.

In some cases, the statewide benefits of certain programs or activities are greater than the benefits accruing to individual districts. This leads individual districts to spend less on these activities than the state would benefit from. For instance, the benefits of major program evaluation usually are available to all districts in the state, yet the costs are borne by the district conducting the evaluation. In this situation, the state can recognize the benefits to other districts by supporting some or all of the evaluation costs.

District costs also can "spillover" to other public or private agencies--that is, the consequences of a district action or program creates costs in another governmental program area. Inadequate attention to the problems and needs of students for instance, can increase the number of students dropping out of school or graduating with minimal academic skills. Research shows that these students are more at risk of committing crimes or becoming long-term welfare recipients. The state is often in the best position to minimize the incentives districts face to create these spillovers or cost shifts.

Uniformity is sometimes critical to program success. In these cases, statewide standards can be the most effective way of ensuring uniformity. Permitting local decision making implies an acceptance of different local priorities and different service levels. In some cases however, the state may not be willing to accept local variation. Statewide student testing, for example, requires uniform tests and consistent rules about which students must take the test.

Conclusion

There is no magic formula to determine when to regulate local policies. In making decisions about school governance (and state control), the costs and benefits of state and local control must be weighed. As Figure 3 and Figure 4 suggest, local control provides the best avenue for empowering districts, schools, and teachers to understand and fulfill the needs and desires of its student population and the larger community.

These guidelines for thinking about local and state control are very consistent with the lessons about school improvement gleaned by educational researchers (discussed in Chapter 3). Specifically, research identifies local control as essential for allowing schools to craft an educational program that best meets the needs of students.

This review of the advantages of state control also suggests the state should focus on specific statewide problems over which districts have little ability or little incentive to address. The next two chapters describe our views of the appropriate state and local roles in K-12 education. We view the state and district governance responsibilities as the foundation for a state strategy and the heart of a K-12 Master Plan.

Chapter 5

The State Role Under A Local Control Policy

The State Role

- Strengthen school boards.
- Use public school competition to reduce the monopoly powers of schools.
- Create a simple, adequate funding system.
- Increase local flexibility/autonomy.
- Address intergovernmental cost shifts.
- Supply information to parents and schools.

Previous chapters reviewed the criteria for identifying the basic roles of the different levels of governance within the education system. In Chapter 4, we concluded that a policy of local control and flexibility over decision making would give schools and districts the best chance to design local education programs that meet local needs and desires.

In our view, the state should focus on making local control as effective as possible. Where local control works well, the state should refrain from asserting its powers. When a local control policy fails to further the goals of the system, however, a state role may be required.

Refining the State Role. Figure 5 (see page 32) outlines our view of the state's key responsibilities in a K-12 system that promotes the importance of local control over educational decisions. The state's role concentrates on areas in which the state can improve local incentives that affect the ability of local educators to make decisions in the best interests of students. These responsibilities are discussed in greater detail below.

Figure 5

State Responsibilities Under a Policy of Local Control

Governance

- Strengthen local school boards and ensure adequate "checks" in local governance.

Monopoly Powers

- Use information and parental choice to increase competitive pressure on schools.

Funding

- Create positive fiscal incentives. Ensure state funding is adequate to reach state standards. Create realistic local-option revenue sources.

Flexibility

• Develop mechanisms to protect and increase local autonomy over decision making.
Cost Shifts
• Address incentives that result in cost shifting between K-12 education and higher education, and health and welfare programs.
Information and Evaluation
• Provide information on policies and programs that are most effective in improving student achievement.

Strengthen School Boards

The state has a major interest in the effectiveness of school boards. Local control can only work if school boards have a sufficient level of control over major decisions. As we discussed in Chapter 2, many of the milestones of education policy since 1970 resulted in weaker school boards. The advent of collective bargaining limited the ability of governing boards to establish employee wages and working conditions. *Serrano* and Proposition 13 reduced school board control over finances and, ultimately, over many policy decisions. These changes significantly narrowed the range of issues controlled by governing boards.

Weakened local autonomy also can reduce the influence of voters over the control of school district policy. Proposition 13, for instance, may have weakened the connection between school boards and voters because "individual households have little incentive to participate in the local political process as it relates to school funding, and local school officials have less reason to be accountable to individual households in performing their management activities" [Rubinfeld].

This connection between the powers granted to (or denied) governing boards and the ability of boards to effectively govern the district is central to the idea of effective local control. As a consequence, one of the most important state roles is ensuring that the balance of powers among the various local interests have sufficient checks and balances. School boards must have adequate control over major decisions. They must also be answerable to voters, parents, employee unions, and other community interests. In other words, boards need sufficient ability to act in the best interests of students yet they also must feel the "hot breath" of accountability.

The state needs to review the "health" of the local governance process. Does the electoral process result in effective local accountability? Does at-large representation (where all voters in a district vote for the entire slate of board candidates) result in broader representation than "regional" representation (where voters in different parts of a district vote for different candidates)?

The state depends on an effective local governance process that: creates accountability among schools, districts, and voters; reflects local desires and needs in district policies; and empowers boards to make decisions in the best interests of students. As a consequence, understanding and balancing school board powers is an ongoing responsibility of the state.

Limit Public Schools' Monopoly Power

The public K-12 system is a virtual monopoly. That is, it is the sole available provider of school services for

most families. The only alternatives are private schools (which must be paid by the family) and moving (which also entails significant costs). As with any private sector monopoly, the K-12 public school monopoly can lead to many significant problems (see Figure 6).

Figure 6
Potential Problems Created by Monopoly Power
• Little incentive to increase productivity.
• Little incentive to respond to consumers.
• Significant power to define agency's mission.
• Larger bureaucracies.
• Emphasis on process rather than outcomes.

As the figure indicates, because districts have few competitors, the pressures to increase productivity (and increase student performance) are weak. While almost all educators want to "do the right thing," the school system has few incentives to respond to consumer (parental) desires.

The weak competitive pressures allow schools and districts to act in ways that sometimes are not in the best interests of students. They have great latitude to define their own agency's goals and are prone to developing large bureaucracies. In addition, bureaucracies often have an internal dynamic that elevates the importance of process issues over outcomes. These internal goals and pressures skew the incentives of local decision makers.

There are several ways the state can address these monopoly problems. The most direct way to improve these internal incentives is to reduce the monopoly power of school districts. The state also can strengthen the signals it sends to districts about the important goals of the public K-12 system. Through these actions, the state can improve local incentives to make decisions in the interest of students, parents, and society. We discuss some areas that the state should consider.

Create Competition. Competition can alter local incentives and make educators more responsive to student and parent needs. Local governing boards have little incentive or ability to create intra-district competition or engage in competition with other districts (or private schools). For this reason, the state should foster competition in the public K-12 system. The state has taken several actions in this regard in recent years, including intra- and inter-district parental choice programs and charter schools. An effective public school choice program and an expanded number of charter schools can introduce basic market forces into the education system and increase educators' focus on student outcomes and parental desires. For competition to work most effectively, the state would need to make available to parents and the public more information about the strengths and weaknesses of local schools.

Focus Districts on Improving Student Outcomes. Monopolies have great ability to set their own goals. In K-12 education, this translates into schools and districts losing sight of the primary mission of schools--student achievement. The state should help schools and districts focus decision making on student outcomes by establishing clear goals and incentives (such as an accountability program with rewards or penalties) for local educators to achieve those goals. As with the choice policy, strong local accountability requires broad availability of good information.

Address Other Governance Issues. We have identified several other governance issues that most districts have little incentive to consider. For instance, districts may be too large or small to be most effective. These districts should, but have few incentives to, consider breaking-up into smaller districts or combining with other districts. Similarly, some education experts believe that all elementary and high school districts should unify in order to coordinate the provision of services to the K-12 population. A third area concerns the impact of collective bargaining on a district's ability to increase student achievement.

These are significant governance issues that spring from current and past state policies. As a consequence, the state should play a role in evaluating the importance of these issues and modifying state policies in these areas to increase the efficiency or effectiveness of the state's K-12 system. In that event, the state should craft a policy that is sensitive to local control.

Create a Simple, Adequate Funding System

Under the Constitution, the state controls K-12 finance, including the types of revenues available to districts, the level of state and local property tax revenues going to schools, and the way these resources are distributed among schools. While the state controls the design of the K-12 finance system, however, it does not necessarily have to control how districts use state and local funds. As we discuss in the following section, under a policy of local control the state would reduce its decision making over budgetary matters to a minimum. Below, we discuss three elements of this approach: creating positive incentives for local decision making, funding adequacy, and local revenue options.

Create the "Right" Fiscal Incentives

In the process of shifting budgetary responsibility to school districts, the state would need to ensure that the funding system creates incentives to make good decisions. For the most part, these incentives are created by giving districts significant budget flexibility *balanced* by local accountability for local decisions. By comparison, the current school funding system can actually reduce local accountability for district decisions.

State Categoricals Can Diminish Local Responsibility. Through its fiscal powers, the state can inadvertently encourage districts to become dependent on state categorical funding for basic educational inputs. The state's textbook program is one example. The state currently provides more than $400 million in funding for school textbooks each year. By earmarking these funds only for books, the state imposes its judgment about the amount districts should spend on textbooks each year.

By identifying a state textbook budget, the state creates two problems. First, the state imposes a financial solution to the administrative problem of an inadequate supply of textbooks. Providing texts to students represents a basic administrative function of all districts. Governing boards and administrators are responsible for budgeting and procuring a sufficient supply of books. By creating a state textbook budget, the state does not address the local incentives that created a local textbook shortage.

Second, by creating a state textbook budget, the state blurs accountability for the responsibility of providing adequate texts. The state assumes some responsibility for assuring adequate textbooks when it plays a role in the allocation of funds for that purpose. District officials can point to inadequate state textbook funding when the local supply of textbooks runs short. As a consequence, state intervention in basic educational inputs not only ignores the administrative failure at the district level, but lets district officials off the hook for the failure to find adequate textbook funding.

There are many funding programs that encourage districts to become dependent on the statestaff development, facility maintenance, and school-site funding, to name a few. A policy of local control requires the state to cede to school districts responsibility for most policy and budget decisions. By helping districts with funding for these specific purposes, the state can satisfy short-term local needs. In the long run, however, state funding programs can create significantly worse governance problems.

Current Incentives to Shift Costs Within the K-12 System. Districts have strong incentives to shift benefits to themselves and shift costs to other educational agencies. For example, districts try to maximize the amount of state funding (benefits) they receive at the expense of other districts. Districts also have an incentive to place certain higher-cost students (costs) in programs administered by county offices of education or other agencies that are separately funded by the state.

Cost-shifting can create *internal* district problems, as well. District funding is a zero-sum game because districts have little control over the amount of funding available. If some students need certain high-cost services, the cost of those services reduces available funding for all other students. If the level of services is modest, the effect on the level of services to the average student is minimal. If the cost is great--as in special education and compensatory education--the competing needs of students create incentives for districts to underserve special needs students. To address this type of cost shift, the state and federal governments have subsidized services to high-cost special needs students.

Reform of the fiscal system should reduce district opportunities for cost shifting. For instance, the state should minimize district ability to influence the level of state funding it receives. Reducing the state's reliance on grant programs and, instead, allocating funding through pupil-weighted formulas is one method to both ensure a fair distribution of funding for most programs and be less susceptible to district attempts at manipulation (in some circumstances, the Legislature would want to provide an adjustment to recognize the special funding needs of small school districts).

Similarly, the fiscal system should limit district ability to shift program costs to other education entities. For example, state funding streams to nondistrict programs (such as county offices) permit districts to avoid program and fiscal responsibility for students who are more difficult and expensive to educate. The state should insist that districts maintain responsibility for each student by limiting direct state funding to programs not administered by districts.

Funding Adequacy

Because the state controls the level of revenues to most districts, the state has the responsibility to provide an "adequate" amount to districts. As the state asserts a greater emphasis on student outcomes of the K-12 system, the state must ensure that K-12 funding levels permit typical districts to meet state academic and performance standards.

This is no easy task. Adequacy is difficult to determine analytically. Without a definitive standard of what an adequate *education* is, there is no way to calculate adequate *funding*. Without that standard, any discussion of adequacy allows individuals to define the term in ways that reflect personal preferences. For instance, recent debates on funding adequacy have revolved around California's national ranking in per-pupil funding levels. While these rankings provide a useful gauge of California's relative standing, they are not very helpful in determining the link between California's educational expectations and reasonable funding to meet those expectations.

The advent of state academic and performance standards, however, creates a common definition of adequate student outcomes for districts in our state. These standards establish a benchmark that is more objective in nature. Thus, with student performance standards, the state can begin determining adequacy by determining the cost of helping students achieve these performance levels.

States have approached this difficult task in different ways. Several states have attempted a "bottom-up" method of determining the cost of providing an "adequate" level of service. This approach tends to break down over the way to translate adequate education into adequate education *services*. This is because there is little information on the connection between outcome standards and particular service levels. In addition, there is no single path (or set of services) for schools to reach state standards. Thus, the bottom-up approach appears unlikely to work.

Ohio took a more applied approach. The state used district experience and practice to determine funding needs. It examined the costs of providing education in more than 100 districts that (1) met state performance standards, (2) had "typical" funding levels (that is, were not way above or below state average levels), and (3) were considered representative of school districts around the state. Ohio then took this district information and developed "target" funding levels for each educational and administrative area. When aggregated, these target levels constituted the state's determination of adequate funding.

This approach allowed Ohio to avoid the problems of determining needed service levels and alternative sets of services that meet state outcome standards. It also required several years of experience with standards and related student assessments in order to establish a group of districts that met state standards. Because California currently is developing state performance standards and assessments, it will not be able to use Ohio's method for several years. In the longer run, however, this applied approach holds promise.

Local Option Revenues

While the state needs to provide adequate base funding, communities within California may have a preference for higher levels of educational services than allowed by state funding levels. Local control over K-12 revenues traditionally resulted in variation in district revenues.

Expanding the availability of locally controlled revenues constitutes an important structural feature of the K-12 system that would:

- Provide a source of discretionary revenues that districts could use to support local programs addressing the unique needs of students.
- Increase local school boards' control over district revenues, and consequently increase the independence and accountability of boards over local issues.
- Reduce pressure on the state to be the funding source of first and last resort for district programs. With reduced state financial responsibility would come reduced pressure to intervene in program decisions.

For these reasons, the state should seriously attempt to create realistic revenue options for governing boards. There are few easy options, however. Property tax increases offer several advantages, such as the documented relationship between housing values and the quality of local schools, ease of administering

property tax changes, and the relative stability of housing values and resulting tax revenues. Without a change in the Constitution, however, the Legislature and Governor have few avenues to increase local option property tax revenues.

There are other avenues to explore. Some have advocated a local income tax as an alternative. Taxing income has the advantage of reflecting individual and family "ability to pay" better than taxing property wealth. Income taxes, however, would be more difficult to administer and are a more volatile revenue source than property taxes. We discuss local revenue options further in Chapter 6.

Increase Local Flexibility

We have stressed the need for local flexibility over funding and program decisions several times in this report. Because the state K-12 budget often has driven state program decision making, simplifying the K-12 budget would increase local flexibility over both fiscal and program decisions. The Legislature also may want to consider how to structure its deliberative process to ensure local autonomy over the long run.

Fiscal and Program Flexibility. The state currently uses its financial power to place fairly rigid controls over local uses of funds. The state's system of funding includes a base block grant (known as revenue limits) and add-on categorical programs that support specific education programs (such as textbooks, staff development, and desegregation). The state's budget approach, however, undermines the responsibility of governing boards and reduces local flexibility to maximize the use of funds to meet local student needs.

Ceding greater control to school boards over the use of funds would address many of the same local governance issues as local option revenues discussed above. Funding reform also would allow districts to use existing funds more flexibly. Categorical program reform, for instance, could simplify the funding rules and increase local control over the uses of funds or types of services provided. Some categorical programs simply should be eliminated (with funds added to base block grants). The state also should simplify and further equalize the base block grants.

Maintaining Local Autonomy Over the Long Run. As discussed above, the Constitution gives the Legislature and Governor almost complete authority in designing the K-12 education system--there is no constitutional provision for recognizing the importance of local autonomy. As a consequence, if the state chooses a policy emphasizing local control, the legislative and executive branches should review the state policy process from the perspective of recognizing the value of local control over the long run. The Legislature could also create a process to collect information on local issues and develop options--short of state actions--to assist in their resolution. The Legislature may want to consider, for instance, changes to the legislative or regulatory decision-making process so that the impact on local control is a standard consideration during deliberations.

Additionally, the education policy committees also could devote a portion of their hearings each year to reviewing the Education Code as a means of identifying state policies that interfere with local decision making. These hearings would provide an ongoing forum for discussion about the appropriate role for the state in the K-12 system.

Address Intergovernmental Cost Shifts

As we discussed in Chapter 4, districts can create "spill-overs"or cost shiftsfor individuals or other government agencies. The education system is affected by many types of cost shifting that occur among

schools, individuals, and other governmental agencies. These cost shifts can be very difficult to address. There may be little incentive to correct cost shifts for programs that benefit from them. In addition, correcting the incentives sometimes requires major program changes. Each program has its own funding sources, restrictions, and priorities which may not match those of the education system. As a consequence, program administrators may be reluctant to make the changes in administrative or policy needed to correct cost shifts. Figure 7 (see page 40) illustrates some of the shifting that occurs among schools and other entities.

Figure 7

Cost Shifts Outside the K-12 Education System

Costs Shifted From Schools

Costs Shifted to the Private Sector

- Inadequate academic preparation can result in lower productivity and higher training costs to business.

Costs Shifted to Other Governments

- Inadequate student preparation may result in higher police, court, jail or prison, and welfare costs to counties and the state.
- Higher education must provide remedial instruction to students who are unprepared to perform at a "college" level.

Costs Shifted to Schools

Costs Shifted From Parents

- Parents who do not (1) meet their children's basic human needs or (2) assist their children to learn create costs for schools.

Costs Shifted From Other Governments

- By failing to address the health and welfare needs of students, counties and the state participate in shifting costs to schools.
- Newly credentialed teachers who are inadequately prepared create training costs for schools.

The state should play a lead role in resolving these problems. Both school districts and counties are creations of the state. Because counties operate most state and federal health and welfare programs at the local level, minimizing spill-overs requires coordination between two independent levels of government. Thus, even if districts and counties voluntarily agreed to address cost shifts, the state probably would need to participate in the crafting of a solution.

A solution to these cost shifts goes beyond the scope of this report. Yet, because the costs incurred by schools and other levels of government are great, this constitutes an area that warrants further attention.

Fill Information Gaps

Providing information has long been an accepted government role. For instance, truth-in-lending laws help consumers evaluate the total cost of borrowing. Federal and state agriculture programs identify ways farmers

can increase the quality and quantity of farm products. The state should perform these roles in K-12 education.

Information is crucial to creating competition among schools and districts. Good data on student outcomes should form the core of school and district "report cards," which help citizens and the business community evaluate the performance of their local districts. Good information on outcomes also helps parents evaluate their educational choices.

Providing information to improve school productivity also is a key state role. For instance, districts often cannot afford the cost of good evaluations of major programs. Since the benefits derived from such evaluations are usually valuable to *all* districts, this is a natural role for the state to fill. For these reasons, making information available to districts about the costs and benefits of promising innovations is an important state function. There are at least three areas where the state can act to provide helpful information to school districts.

Research Reviews. The education world is deluged with academic and other research on education problems and practices. Yet some of this work is poorly done, resulting in unjustifiedor even incorrectconclusions. For example, researchers are questioning research done in 1992 that concluded that K-12 school programs are biased against girls. The new research suggests that the opposite may be truethat girls are *more* successful than boys in school.

The state should help districts and schools understand the significance of new research. Balanced reviews of these works could help districts avoid responding to poorly designed research. State experts also could help districts put new research into perspective: how specific research findings about education apply to the jobs of teachers, principals, and administrators; and whether or not new findings agree with past research.

Program Evaluations. As discussed above, the state should finance evaluations of programs with statewide significance. Evaluations should be carefully designed to collect and assess data on student outcomes that permit an understanding of how program services affect different types of students in different types of districts. An evaluation of this scope requires a significant investment of funds. Evaluations that do not make the needed investment rarely provide valuable information.

Demonstration Programs. New programs may be too expensive to implement at the local level without better information about costs and benefits. In these cases, the state could provide limited program funding during an evaluation period for start-up and implementation costs. State assumption of these costs would continue only for the duration of the demonstration program. Once costs and benefits are determined, costs of implementing the program would be a local decision and responsibility.

Conclusion

The irony of the conclusions from this chapter is that a policy of *local* control over decision making still requires a *major* state role. It is, however, a much different role than California has adopted in practice, one that requires the state to learn how to *support* the development of high quality local programs rather than *dictate* the way schools should work. We think this new approach has a better chance than the state's current strategy to succeed in improving schools.

This chapter lays out the broad outline of a state role in K-12 education. Completing this task would take timeand a great deal of learning about the most effective ways to restructure the state-district relationship. Implementing the new state and local roles also would take time.

In adopting an approach of local control over decision making, it is imperative that districts are prepared to implement changes in ways that contribute to improved student performance. In the next chapter, we turn again to the issue of these local roles.

Chapter 6

Local Roles Under a Local Control Policy

Local Roles in Education

- School sites focus on the question of how to best serve students.
- Districts focus on site needs for flexibility, resources, and information. Accountability is a critical district role.
- The state should allow districts to determine the relationship between districts and school sites.

In Chapter 5, we defined a state role that supports a policy of local control as the most promising way to achieve the goals of the K-12 system. Because the state's decision-making role would be limited, our proposed master plan would result in a much larger local role than currently exists. How would a master plan structure the local policy process? As we discussed in Chapter 3, research suggests different roles for school sites and districts. In this chapter, we discuss these local relationships in more detail.

Local Roles in K-12 Decision Making

Our review of the research, discussed in Chapter 3, identified distinct roles for districts and school sites. The primary role of the school site (principals, teachers, and parents) is to create an education program that maximizes the impact of services on student achievement. To accomplish this task, principals and teachers need a measure of financial and program control so that they maintain the flexibility needed to assist students who have different learning needs and styles. Sites also may need a variety of services and assistance from the district to improve.

Districts should play a dual role in educational governance. First, districts should support school sites in the improvement process. District support activities could be far ranging, including curriculum development, employee evaluation and training, and information on the impact on student achievement of different types of services. Second, districts should constitute the focal point for local accountability. Districts would hold schools and employees accountable for their level of skills and the quality of their performance. Districts also

would constitute the main point of contact and accountability to voters.

Let Districts Structure the Local Relationship. How far should the state go to implement a vision of the district/school site relationship? The state's role in the school improvement process is improving the incentives for decision making and assisting districts by supplying information and resources. Efforts to impose a specific relationship between districts and sites is merely a different type of state process requirement, one that runs counter to our view of the state role discussed in the prior chapter. Instead, we believe the state should let districts determine how to structure the district-site relationship. A policy of local control requires the state to be patient while local decision makers develop local responses to the need for improvement.

In our view, there are two major reasons why the state should not try to specify the local district-site relationship. As we stated in Chapter 3, school sites need to develop their own solutions to problems. Mandating solutions could even create resistance to state objectives. While mandating specific site policies may help some districts jump-start the local improvement process, in other districts such policies would be poorly implemented, perhaps undermined by district or site personnel, and fail to generate the state's desired outcome. Thus, the state needs to recognize the importance of local support for specific district-site policies.

A second reason for allowing districts to shape local roles and responsibilities grows out of the different district and site capabilities to make good decisions. Specific state policies rarely meet the day-to-day needs of all schools in the state. For instance, a brand new principal in a school staffed with newly credentialed teachers most likely requires more district help and direction than a school with an experienced principal and teacher corps.

Similarly, a "failing school"one that has consistently failed to raise student achievement to a satisfactory levelmight also require greater district intervention. In fact, some education experts believe that these failing schools require *greater* structure (and less autonomy) over important aspects of teaching to achieve success.

State Should Interact With Districts

For these reasons, we conclude that a state master plan should not attempt to define the relationship between districts and school sites. The implication of this conclusion is very important: state policy generally should address *districts,* not school sites. Directly specifying school site policies would place the state in the role of telling districts how to do their jobs.

This conclusion has broad implications for state policy. For instance, state accountability programs would create rewards or penalties for *district* performance (even though individual school performance should be part of the district performance assessment). Similarly, the state should attempt to alter district behavior as it considers how to address the problem of low-performing schools. It is the district's job to determine the best way to increase school site performance. If the district is incapable of establishing sites that can meet expectations, the state should consider district interventions, not individual school site interventions.

In the school finance area, the state should refrain from directly funding school site programs. Districts should be responsible for meeting the financial needs of schools. If the state provides greater local latitude over funding decisions (as described in Chapter 5), districts will have greater authority and ability to meet these needs. And, as the state's experience with charter schools has shown, deregulation of state and districts' rules can generate a great deal of school site change without additional funds.

Conclusion

This chapter explored the state's role in establishing district and school site roles. Although research paints a broad picture of the local responsibilities needed to create more effective schools, we believe the state should refrain from interfering in the local relationship without clear evidence of need. Instead, the state should develop state policy that places school districts as the controlling entity over local decision making and accountability. This would allow districts to determine the level of decentralization over decisions to individual school sites.

This chapter concludes the development of state and local roles and responsibilities in the K-12 area. In the next chapter, we apply these roles to illustrate how our suggested master plan could alter the way the state approaches K-12 policy.

Chapter 7

Implementing The Master Plan

The previous chapters of this report provided the basic structure of our suggested master plan by identifying the respective state and local roles in the governance of the K-12 system. This chapter illustrates steps the Legislature could take to implement this master plan. Specifically, we examine: (1) the state budget for K-12 education, (2) employee rights and responsibilities contained in the Education Code, and (3) state-level governance issues.

The following discussion of these three areas does not constitute a comprehensive planChapter 5 suggests many other areas of state interest that warrant attention. Yet our analysis of state and local roles provides a clear sense of how, under our master plan, the Legislature could act in these areas. Together, we think they provide a way for the Legislature to begin a fundamental review of the state's education system.

Give Districts Greater Control Over School Finance

School finance is a state responsibility and, without changes in the State Constitution, will remain so even if the state adopts a policy of increased local control. As discussed in Chapter 5, the state could reform the K-12 fiscal system to greatly enhance district authority and responsibility to address local fiscal and program priorities. The state, however, would still have the responsibility to:

- Ensure state funding is sufficient to allow typical districts to meet state academic and performance standards.
- Create realistic local-option revenues as a way of increasing school district independence and the accountability of local boards to voters.

- Establish a funding system that creates incentives for good local decisions, ensures a fair distribution of funds, and requires districts to be financially responsible for all students.

- Promote district flexibility and "independence" in decision making while also ensuring local fiscal accountability.

Realigning the state's school finance system in accordance with these guidelines would result in a fiscal system that looks similar to the current one, but offers districts new opportunities for using funds more effectively. Below, we discuss how this "realigned" finance system could look under our proposed master plan. Specifically, we examine changes in revenue limits, K-12 categorical programs, school facilities, and retirement programs.

Base Block Grants

Currently, about two-thirds of Proposition 98 funds are distributed in the form of "revenue limits," or general purpose block grants. These per-pupil grants are simple to administer, relatively fairly distributed to all districts, and provide almost complete local flexibility over how these funds are used. Because of these advantages, these "base" block grants would become the primary mechanism for distributing state funds to districts.

Maintain the Importance of Base Grants. Because of the importance of these local discretionary revenues, we believe the Legislature should reenforce the significance of the base grant over time. One way to do this would be to increase base grants each year by the higher of actual inflation or the Proposition 98 "inflation" adjustment (the Proposition 98 adjustment is usually calculated using one or two tests--Test 2 or Test 3--which, in healthy economic times, is greater than the inflation rate). This would maintain (or slightly increase) over time the proportion of state funds that is distributed through these grants. In addition, we suggest broadening these base grants to include other state and federal general purpose funds (such as certain revenue limit "add-on" funds and federal funding provided to districts in lieu of property taxes).

Equalize Base Grants. In order to guarantee an equitable distribution of K-12 resources, we also recommend that the state take steps to further equalize base grants statewide. Equalization adjustments could be built into the base grant formula. The state also could provide additional funds to hasten the equalization process when the budget permitted.

At the same time, the state would need to review the basis for existing revenue limits. For instance, is a uniform statewide rate appropriate or should the state consider regional cost differentials? Similarly, are funding differences for districts of different sizes (large and small) and types (elementary, high school, and unified) appropriate?

Categorical Programs

In our 1993 report *Reform of Categorical Education Programs*, we called for simplifying and consolidating categorical programs. In that report, we identified 57 different state categorical funding programs. These programs support a wide range of activities, including programs for students with special educational needs, programs to improve instruction and curriculum, and programs addressing student social and health needs. As of the 1998-99 budget, about one-third of Proposition 98 funds were distributed through categorical programs.

Simplify and Consolidate. Under our "realigned" fiscal system, categorical programs would remain an

important financing mechanism. To maximize local autonomy over financial decisions, however, the existing system of categorical programs would be grouped into a relatively small number of broad funding programs. These larger categorical programs would give districts great freedom in determining the use of funds locally.

Categorical programs in this plan would provide funding to all districts. Whenever possible, funding would be distributed on the basis of pupil counts as a means of establishing an objective measure of program "need." Similar to the base block grants, the state would equalize district per-pupil funding levels over time.

Eliminate Many Programs. As we discussed in Chapter 5, some categorical programs unnecessarily influence district spending levels for basic educational inputs, such as textbooks or school-site improvement activities. Our recommended fiscal system would eliminate these programs and add the categorical resources into base block grants. This would require districts to determineand be held accountable forlocal spending on these inputs. Programs that could be rolled into base block grants include transportation, textbooks, school library materials, technology, and the School Improvement program.

Create Transition Programs. Under a fiscal system emphasizing local control, we expect the Legislature would occasionally want to increase spending on local activities that hold great promise for improving student achievement. In these instances, the state could create "transition" grants to focus district attention on these areas, without creating a permanent state role in local funding decisions. A transition grant would provide a flexible block grant of funds to support local programs addressing specific problem areas, such as staff development. Then, after a reasonable periodsay five yearsthese categorical funds would be added to the base block grants. During the five-year period, the state would evaluate local programs to better understand the impact of increased spending and the local incentives that influence district decisions. At the end of the five years, districts would then be free to use the funds for staff development or any other local priority.

Create Demonstration Program Budget. A second way for the Legislature to participate in the improvement process is by testing specific program models. In our recommended plan, the state would consolidate several existing programs that provide short-term support for specific school innovations in technology, mathematics, and reading into an "demonstration/evaluation program" budget. This new "categorical" would support relatively small demonstration programs that test and evaluate important local program innovations. For instance, the state could evaluate the effect of different "off-the-shelf" school reform models, such as the Success for All and Accelerated Schools models.

Provide Annual Facilities Funds

The state could return financial control to local school districts in other major program areas. Support for school facilities is one such key area. The state currently provides school facility funding through two programs. First, the state provides support for new facilities and modernization of old facilities through periodic voter-approved state bond acts. State spending for K-12 bond repayments totals about $1 billion annually. Second, the state helps schools pay for "deferred" or major maintenance, such as roof replacements and other expensive repairs. The amount provided for deferred maintenance has fluctuated in recent years from $35 million in 1996-97 to $160 million in 1998-99.

The current state approach to local facility needs has several drawbacks. First, the presence of state funding has reduced local accountability for local facility decisions. When the state provides funding for deferred maintenance, for example, it suggests that it is acceptable for schools *not* to provide adequate maintenance. Maintenance, however, represents an ongoing operational cost that districts *should* recognize in their annual budgets. As a consequence, state funding for this activity gives districts the incentive to act inappropriately with regard to the upkeep of *their* facilities. The funding also suggests the state is somehow the source of the

maintenance problem.

Second, districts lose a great deal of control over local capital outlay programs if they rely on state funds. Districts, for example, cannot depend on state funds being available to meet local needs. The state bond process requires the approval of the Legislature, Governor, and statewide votersall of which is not always forthcoming. This complicates district planning efforts, and sometimes requires districts to "do without" or find short-term "bridge" loans when state funds are not available. In addition, state requirements attached to bond funds can restrict district flexibility over the use of bond funds.

State facility funding programs need to be flexible, dependable, and reenforce local accountability for facilities. The current system, however, fails on these criteria. To address these problems in a manner consistent with our suggested master plan, the state could provide an annual stream of funds to school districts for long-term facilities costs. These funds should be linked to the cost of facilities "used up" each year (or "depreciated"). While many districts (especially smaller ones) would not need to spend money on facilities each year, they could "bank" the state funds until the time they were required. Districts could then use these funds to (1) directly pay for capital projects, (2) borrow against the state funds, or (3) supplement state funds with proceeds of local bonds.

In general, the state funds would be distributed on a per-student allocation, although the state would need to consider whether small districts or districts with low property wealth would need a somewhat higher per-student allocation. In the long run, this program would eliminateor at least greatly reducethe need for state school facility bonds. In the short run, however, the state would probably need to continue to provide funds for districts that have significant backlogs of capital outlay projects.

Allow Flexibility Over Retirement Plans

The state also could return control over retirement programs to school districts. Currently, the state controls most aspects of school district employee retirement plans. State law specifies the monthly employer and employee contribution, the level of retirement benefits, and annually dedicates more than $900 million in General Fund support for state-supported benefits.

Like the state facilities program, this level of state regulation reduces local flexibility and responsibility for retiree benefits. Districts and employee groups cannot negotiate between current benefits (such as higher wages or smaller class sizes) and future state-provided benefits (such as higher retirement payments), for instance. In addition, districts cannot increase benefits when they find that existing retirement benefits are too low to attract good workers.

Existing programs also create an incentive for school employees and districts to seek higher retirement benefits from the state. Because state contributions to school employees' retirement do not count towards the minimum guarantee under Proposition 98, there is no local "cost" to state-initiated increases in retirement benefits. If the cost of these increases were included within Proposition 98, districts and employee groups would have to choose between higher retirement benefits and other possible local uses.

The state has almost no flexibility to alter its contributions to *existing* school employees, however, as retirement benefits to current school employees are vested (or guaranteed). For *new* employees, though, the state could transfer responsibility for retirement benefits to school districts. To do this, the state could modify state statutes to let districts and employee unions negotiate retirement packages along with salaries and working conditions for new employees.

The bottom line is that districts and employees would negotiate the level of salaries and benefits. The state role would be minimal to ensure "portability"--the ability to keep past pension benefits when moving to a new school district--and guarantee that districts are adequately saving to pay for future pension benefits. Under this approach, the statewide retirement systems would still be plan providers to districts. The benefits selected and the full costs of these benefits, however, would be the responsibility of the districts. (This is currently the relationship, for instance, that cities and counties have with the retirement system.)

Few Local Revenue Options Available

Local-option revenues are a critical part of any plan to empower districts. An independent source of revenues can supply funding for high-priority local programs, giving districts a measure of program independence from the state. Control over the level of taxesincreases or decreasesalso can help engage voters in the activities of districts and schools, which increases the chances that local parents and voters will hold teachers and administrators accountable for the performance of schools. As a result, to make a policy of local control as effective as possible, districts need control over local discretionary revenues.

Currently, districts have two options. They may levy *property* tax increases on a per-parcel basis with a two-thirds approval of voters. In addition, districts may create local *assessments* to pay for certain maintenance and landscaping expenses with a weighted majority approval of affected landowners in a district.

Few districts use these existing options, however. For example, about 100 districts have asked voters to approve a parcel tax for operational expenses since the mid-1980s. Of this number, voters approved the levy in 40 districts. These successful districts represent the wealthier communities in the state. Given that there are about 1,000 school districts in California, district interest in parcel taxes appears relatively low.

Education officials we spoke to gave several reasons for this. Some local officials feel that the two-thirds vote requirement for property taxes cannot realistically be obtained due to political or demographic characteristics in their districts. Others point to an unfair impact that parcel taxes can have on certain types of landowners. In addition, Proposition 218 significantly limited school district (and other local government) ability to levy assessments. Whatever the reasons, most local officials we spoke to have never seriously entertained the idea of seeking voter approval for a local parcel tax or local assessment.

No New Statutory Options. The Legislature has little flexibility to address issues related to local discretionary revenues. As we discussed in Chapter 5, property and income taxes would seem to be the most practical options. The Constitution, however, appears to block school districts from raising property tax rates to increase operating revenues--even if these rates were *within* the 1 percent cap. In addition, local income taxes present several policy and administrative problems. Consequently, as we discussed in Chapter 5, that option represents a poor choice from a tax policy standpoint.

The Constitution also controls the local mechanism for instituting any new tax. From a governance perspective, the lower the threshold for increasing taxes, the more voters and the business community need to pay attention to district matters in order to ensure that a given tax level is justified. Thus, giving local *school boards* the authority to increase or lower taxes creates the strongest local incentive for increased voter engagement and district accountability. The Constitution, however, requires schools to obtain two-thirds voter approval for any new tax authority (such as parcel taxes).

Can Local Governance Work With Existing Revenue Responsibilities? Because of these constitutional restrictions, it appears the Legislature cannot make *statutory* changes to improve the existing revenue options

available to school districts. Can a locally oriented governance model create the necessary local accountability forces without new revenue responsibilities?

We think it unlikely for two reasons. First, even if the Legislature gives substantial flexibility and autonomy to school districts, that freedom will not generate the breadth or intensity of interest in district affairs on the part of voters and businesses compared to district proposals for changed taxes. As a consequence, the lack of local revenue discretion threatens the development of strong local accountability.

Second, with no additional local revenue discretion, the powers of the state and local districts would not be balanced. Instead, the state would remain the dominant power and the sole source of funding for most districts. In addition, without strong local accountability, the state would likely take a stronger role in regulating district practices. Thus, over time, the state probably would "reregulate" K-12 education.

Thus, if the Legislature adopts a master plan premised on local control, we believe it should consider a constitutional amendment to create realistic local-option revenue possibilities for school districts. This represents our only recommendation for a change to the State Constitution in the report. This is because we could not find any satisfactory statutory solutions to this critical issue.

Deregulate the Education Code--Employees

Local flexibility is a key factor to improving California's K-12 system. Flexibility includes autonomy over budget and program decisions and the ability to manage schools in ways that promote educational quality. Indeed, if the state plans to hold districts accountable for outcomes, it must also substantially reduce the level of "process" regulation that is currently found in the state Education Code.

The single most important ingredient to quality is a district's employees: teachers, principals, district administrators, other support, and classified staff. Limiting district ability to assemble and manage a team of high-quality employees creates a major barrier to success of the state K-12 system.

Existing law takes two central approaches to local employee issues. State law authorizes collective bargaining (if desired by employees), which establishes a local process of negotiations between management and employees. The state Education Code also directly regulates many aspects of district employee management.

This two-track approach to employee issues creates an apparent contradiction in state statutes. On one hand, the state promotes *local* resolution of employee issues through collective bargaining. On the other hand, current law specifies aspects of district employee policy that would otherwise be bargainable issues.

This conflict is significant because of the extent and specificity of state laws governing employees. Existing law describes whom districts may hire, the rights and duties of employees, district salary structures, discretion in managing employees, and the process of review and dismissal of employees. The impact of state restrictions goes beyond a district's employeesthese rules also affect the cost and quality of instruction provided to students. Since local flexibility is key to allowing districts and schools to create education programs that best meet the needs of students, our recommended master plan would return to local processes the power to establish most employee policies. Below, we review several of the most significant state restrictions.

Hiring. State credential requirements limit district ability to hire desired staff. For instance:

- ***Certification Places Promising Candidates Off-Limits***. While credentialing can serve to weed out unqualified individuals, state credentialing requirements also reduce the pool of potentially qualified candidates from which schools may choose. There may be many individuals who would try teaching if they did not need to go through the expensive and time-consuming process of obtaining a credential. For instance, individuals with relevant training or career experiences (such as college teaching) cannot teach in K-12 schools without a credential.

- ***Administrators Must Come From Teacher Ranks***. State credentialing requirements for administrative employees are more limiting than those for teachers. The requirements for an administrative credential include: a teaching certificate, three years of full-time teaching, completion of a professional administrator training program, and current employment in an administrative position after completion of professional preparation. These requirements substantially limit the type of management candidates districts may consider.

Local Flexibility Over Salary Structures Is Limited. State law requires districts to pay teachers based on a "salary schedule" that uses two factors to determine teacher pay: each teacher's level of education and years of teaching experience. While this ostensibly results in "fairness"teachers of equal education and experience are paid the same amount--the mandated schedule does not permit districts to include other factors in the determination of salaries, such as an assessment of the *quality* of a teacher's performance. While a recent change in state law (Chapter 959, Statutes of 1996 [SB 98, Sher]) permits districts to change the salary schedule (if agreed to by employee unions), the salary schedule remains the default policy.

Local Authority to Dismiss Employees Is Substantially Narrowed. State law also restricts a district's ability to dismiss employees. For instance:

- ***Layoff Notices Must Be Issued by March 15 of Each Year***. If notices are not issued, teachers have a right to employment in the district during the next year. This requirement does not recognize the reality of the state budget process, where major changes in school funding may occur as late as May or June (or even later). Thus, schools must make employment decisions far in advance of having the information needed to make good decisions.

- ***State Law Greatly Complicates Teacher Dismissal.*** Current law requires, after two years of employment in a district, that teachers are awarded "permanent" status. This provision also is known as teacher "tenure." State law also limits to specific categories the reasons why districts may dismiss tenured teachers, including unprofessional conduct, dishonesty, and inadequate performance. In practice, these laws greatly complicate the dismissal process, thereby, reducing district ability to dismiss the marginally competent teacher.

- ***Appeal Process Increases the Time and Expense of Employee Dismissals.*** Employees dismissed by a district may appeal that decision to three entities: the district governing board, the state Commission on Professional Competence, and superior court. If the commission concludes the employee should not be dismissed, the district pays for the cost of the three-person commission *and* the employee's legal costs. If the commission upholds the dismissal, however, the employee pays for half the commission costs and his or her legal fees. Anecdotal evidence suggests that dismissals that are appealed can take

years to be resolved and potentially cost districts hundreds of thousands of dollars.

Let Districts Resolve Employee Issues

We see many parallels between these employee provisions and the fiscal restrictions discussed previously in this chapter. Just as state budget restrictions sometimes protect district officials from difficult local decisions, state regulation of employee issues has the effect of sometimes protecting the interests of employees from local desires for alternative employment practices. We think the solution should be the same in both situationsreduce state restrictions and allow local resolution of these issues.

As a result, in our recommended plan, the state would examine whether its involvement in these issues is appropriate. Credentialing would be reviewed with an eye to assuring that credentialing requirements do not needlessly exclude talented individuals and increasing local ability to attract and train teachers. The state also would review most education-specific laws regulating wages and employee rights with a goal of allowing districts, employees, and local communities the flexibility to address the needs of employees and districts through collective bargaining or other local processes. School employees would still be protected by general state and federal laws governing employees and working conditions.

Refine State-Level Governance

The Constitution and statutory law create many state entities that influence K-12 education policy. State entities include the Governor, Legislature, state SPI, State SBE, county Boards of Education, the state Controller, the Commission on Teacher Credentialing (CTC), and the State Allocation Board. Returning to the concepts of "separation" and "balance" discussed in Chapter 2, this multiplicity of institutional actors results in a great measure of separation in the state decision-making process. Separation helps to ensure that no single entity becomes too powerful.

On the other hand, excessive separation can lead to other problems that blur accountability for state actions. A failure to clearly define the responsibilities of state entities can cause agencies to compete for control, leading to "turf" battles and inconsistent state policies. Too much separation may also result in policy "gaps"program areas for which no agency is responsible. Below, we discuss two major state-level governance issues caused by excessive separation: the role of the SPI and SBE and the state's apparatus for developing and training classroom teachers.

Refine the Role of the SPI and SBE

The Constitution requires an elected SPI and a state board created through appointment or election. The Constitution is silent, however, about the duties of these entities and the relationship between the two constitutional authorities. State law defines the powers and responsibilities of the SPI and the board somewhat more clearly. Specifically, current law directs the Governor to appoint the state board and makes the board responsible for "all questions of policy within its powers." The SPI is charged with executing the "policies which have been decided upon by the board . . ."

This would appear to be a fairly clear division of responsibilities, except for the fact that the SPI is elected by voters. Because of the SPI's visibility and electoral status, the SPI traditionally has been accorded deference over many policy issues. This deference is evident in the state Education Code, which requires the SPI to make an extensive number of large and small decisions.

As a consequence, state statutes fail to establish a consistent governance framework for the board and SPI. State law places the board in charge of policy despite its status as an appointed board serving with an elected SPI. Then, current law draws both the board and the SPI into policy making without a clear division of responsibilities between the two entities. Instead of creating clear lines of authority and accountability, statutes permit (or even encourage) conflict over "turf" and power.

Organizational Structure Affects Outcomes. States use three basic organizational structures to guide state-level decisions in K-12 education. About 15 states feature an elected SPI (with or without a state board). Another 27 states require an SPI or education commissioner who is appointed by the state board. Another 8 states require the Governor to appoint the education executive.

The state organizational chart involves much more than a political decision over elected or appointed state entities. The choice between an elected SPI and a Governor-appointed SPI (directly or through the state board) represents a tradeoff of important governance features:

- ***Independence.*** An elected SPI can provide an informed voice for improving education that, due to the position's constitutional and electoral status, has a measure of independence for the Governor. An appointed SPI would have a divided purposeto improve education and represent the Governor's interests in the educational arena.

- ***Accountability.*** An appointed SPI would implement state policies consistent with the Governor's budget and program priorities and, as a result, create clear lines of accountability for voters. An elected SPI's independence can lead to decisions that are at odds with other state policy makers, which blurs accountability to the public.

With an elected SPI as the lead education executive, the rationale for a strong state board is not clear. Currently, California's board plays two roles: it (1) serves as a check on the powers of the SPI and (2) acts as a "sounding board" that broadens the input to the SPI on policy and implementation matters. The board's power to check the SPI derives from its ability to decide all questions of policy in the administration of the state's education program.

That same power, however, also creates the overlapping responsibilities between the SPI and SBE, which can lead to conflict and blur the SPI's role in the system's success or failure. In addition, the Constitution creates several other checks on the SPI. The SPI is held accountable to the public through the electoral process and to the Governor and Legislature through the legislative and budget process.

As a result, the statutory relationship between the SPI and SBE needs to be reviewed to reduce the amount of overlap in the role of the two entities. The SPI's administrative authority could be strengthened, for instance. The board's role in long-term planning and oversight of local programs could be enhanced. In this way, the state could point the two constitutional agencies into more complementary, rather than conflicting, roles.

Maximize Independent Voice of SPI. The state could restructure the state's governance process in several different ways (as evidenced by the choices of other states). Because the state governance structure influences the direction of state policy, the state's organizational chart should reflect the master plan vision for the state's role in governing the system. For instance, if the state chooses a policy of local control, the resulting smaller state role would reduce the need for an independent SPI in policy and implementation. In

that case, a Governor-appointed SPI would strengthen lines of accountability for the state's actions in K-12 education. On the other hand, a strategy of broad state intervention into local issues would increase the need for an independent voice in the state policy process to represent the interests of districts and parents.

Because our recommended plan emphasizes local control, our suggested solution to this issue assumes a smaller state role in the details of K-12 decision making. In addition, our emphasis on reforms that can occur through statutory changes means that any solution requires defining new complementary roles for the SBE and SPI. Working within current constitutional provisions, this could be accomplished by:

- ***Using the SPI to Promote Accountability and Local Control.*** Instead of involving the SPI in implementation and policy issues, statutes could direct the SPI to use the office's independence to (1) further the goals and strategies embodied in the state's K-12 master plan and (2) create a source of information and assessment about the success of the K-12 system. This would require the state to define the SPI's statutory responsibilities to include data collection and evaluation, student assessment, and accountability. The SPI also would act as an independent advisor to the Governor and Legislature, charged with promoting the state's master plan and system accountability. Finally, the SPI could be required to assess trends in student progress, evaluate K-12 programs, and review the impact of state policies on local control and the success of the education system.

- ***Creating a New Executive for Policy and Implementation.*** To create clearer lines of accountability at the state level, the remaining duties of the SPI would be transferred to a cabinet-level position appointed by the Governor. This new executive would play a role in education similar to current department and agency heads in other state program areas. Currently, the Governor's Secretary of Education serves primarily as a policy advisor with few executive responsibilities.

- ***Using SBE as a Long-Term Policy Board.*** With the change in the SPI's responsibilities and the creation of a new K-12 executive, the state could recast the SBE's role into more of a policy board. Working with the SPI and a new education executive, the board would be responsible for monitoring the implementation and effectiveness of state and federal programs, developing and recommending a comprehensive plan for the state administration of K-12 programs, and acting as a sounding board for major state program decisions (when significant public input is desired).

Consolidate Teacher Training Programs

Excessive separation of policy responsibility can result in policy "gaps"program areas for which no state agency is responsible. One area where this currently exists is in the training of the state's teachers. Currently, at least four state agencies administer teacher training and development programs in Californiathe SDE, California State University (CSU), CTC, and California Post-Secondary Education Commission (CPEC).

The creation of so many different state agencies with the responsibility for the development and continuing training of teachers results in a fragmented, sometimes uncoordinated, state policy. No single agency monitors *all* teacher training issues to ensure that (1) there is a clear delineation of function between the different agencies, (2) issues don't "fall through the cracks" between agencies, and (3) agencies are held accountable for desired outcomes.

To address these issues, the Legislature needs to improve coordination between these agencies. One way to accomplish this is merging into SDE the functions currently administered by the CTC (which include issuing teacher credentials and certifying CSU and other teacher preparation programs). In addition, federal teacher training grants administered by CPEC could be consolidated into the department or approved by SDE and

SBE each year.

By consolidating these responsibilities into SDE, our proposal would take advantage of the broader perspective of the SBE and SDE over education issues. Specifically, we see the following advantages:

- ***More Consistent Policies.*** Merging state teacher training responsibilities into SDE would encourage a more comprehensive and consistent perspective on teacher issues. It would also connect teacher training issues more directly with a broad range of policy issues the department and board addresses, such as curriculum and instructional approaches.

- ***A Broader Regulatory Perspective.*** Teacher preparation and training is CTC's primary duty. As a consequence of this narrow mission, the regulation of teacher credentialing has become quite complex (for instance, CTC maintains more than 100 different teacher and administrative credentials). Placing CTC under the purview of SDE and SBE would likely reduce the level of regulation because the SDE and SBE would be more sensitive to the broader costs to schools of the regulatory complexity. According to a recent survey of 29 states, 20 states place credentialing responsibilities with the state board or state department of education. Only four states vested this responsibility solely with a credentialing board or commission [Rodriguez].

- ***Stronger Control and Accountability for the Education Executive.*** By merging these programs into the SDE, the state would place accountability for teacher training issues (outside of CSU budget and administrative issues) with the education executive appointed by the Governor. Given the importance of teacher issues to the success of the education system, this consolidation is essential to creating strong accountability.

Conclusion

Our recommended master plan revolves around K-12 governance issuesthat is, which level of governance has the information and incentives to make decisions in the best interests of students. By recognizing the importance of both the state and local school districts in the governance of the system, we attempt to build on the relative strengths of each. In addition, rather than create areas of overlapping state and local responsibilities, our recommended master plan tries to separate responsibilities for most decisions as a way of creating clear lines of accountability.

The value of a master plan goes beyond the specific strategy for improvement, however. A master plan also represents a commitment to a shared view of the appropriate state and local roles in educational governance and the general solutions to the problems plaguing the system. This shared perspective would allow the state to follow its master plan over the long term, refining and improving the implementation of the state's role (and allowing districts to do the same).

For this reason, the *process* of creating a master plan is as important as the reforms proposed in the plan. As we discussed in Chapter 5, the commitment of state and local decision makers to a plan for improving schools appears to be a critical factor in the long-term increases in student achievement experienced in Texas and North Carolina. Their commitment translated into sustained polices even when political and educational leaders changed.

As this report was completed, the Legislature began consideration of a resolution to create a joint legislative committee to develop a master plan for all the state's education programsfrom kindergarten to college. We hope this report can help the Legislature to begin the planning process for kindergarten through high school.

If the Legislature can create a broadly accepted vision for addressing K-12 issues, it will be well on its way to crafting a meaningful plan to guide state policy for improving California's schools.

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